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SCOTTSDALE CITY COUNCIL

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ALMA SCHOOL ROAD
RELIEF SEWER
COST-SHARING
AGREEMENT

**Report No. 9703
December 1997**



December 11, 1997

Honorable Sam Kathryn Campana, Mayor
Members of the Scottsdale City Council
Crescent Moon Partners, L.L.C.
Estancia Development Associates, L.L.C.

Transmitted herewith is the final audit of the Cost-Sharing Agreement dated July 18, 1995, between the City of Scottsdale, Crescent Moon Partners, L.L.C., and Estancia Development Associates, L.L.C. (Agreement # 950093). This audit was required by the agreement to establish the actual construction costs and determine whether there were funds available to be returned to the contributing partners.

As a result of our audit work, nothing came to our attention that caused us to believe that the City of Scottsdale or any other party to the cost-sharing agreement failed to comply with any material provision of the agreement.

Because the funds contributed to the cost-sharing agreement exceeded the cost of construction there are remaining funds which are required to be distributed back to the contributing partners. The agreement also provides for all the parties to share in the cost of the final audit. As such, the City Auditor's Office kept track of the direct audit hours to complete the audit. As a result, we have included \$2,275 for the cost of the audit in the calculation of the amount to be distributed.

During the audit, we identified overcharges by the third party project manager in the amount of \$4,176.48 which have been reimbursed and applied to the funds available for distribution.

Respectfully Submitted,

A handwritten signature in cursive script, reading "Cheryl Lee Barcala".

Cheryl Lee Barcala, CPA, CIA, CFE, CGFM
City Auditor

Independent Auditor's Report On The Construction Costs Incurred For The Completion Of The Alma School Road Relief Sewer Cost-Sharing Agreement

We have completed our audit of the construction costs incurred for the completion of the Alma School Relief Sewer Cost-Sharing Agreement. The audit was required under section 11 of the cost-sharing agreement to verify the actual construction costs and finalize the contribution of funds for the project. Section 11 of the agreement calls for the audit to be conducted by an independent certified public accountant acceptable to all parties. The City Auditor's Office is established by Charter and reports directly to the City Council. As such, according to United States General Accounting Office *Government Auditing Standards* (1994 Revision), the City Auditor's Office may be presumed to be independent of the City management function. Crescent Moon Partners, L.L.C. and Estancia Development Associates, L.L.C. agreed to the City Auditor's Office conducting the audit.

We conducted our audit in accordance with generally accepted government auditing standards and as required by Article III Scottsdale Revised Code Section 2-117 *et seq.*, with one exception. The last peer review of the City Auditor was completed April 5, 1991. Thus, we currently do not comply with the requirement for a peer review at least every four years.

The following information represents the cost of construction and the amount contributed by each of the partners. Because the actual construction costs were less than the amount originally contributed, after inclusion of interest earnings of \$17,942.26, remaining funds in the amount of \$82,814.42 are available for distribution. Section 11 of the agreement requires that excess funds be distributed back to the partners proportionate to their original contribution.

Cost of Construction		Reconciliation of Contributions	
Permits	\$ 8,745.97	City of Scottsdale	\$329,891.65
Construction	505,813.00	Crescent Moon	260,070.84 ⁽¹⁾
Management	<u>89,991.87</u>	Estancia	<u>79,460.51</u>
Total	<u>\$604,550.84</u>	Total Contributed	<u>\$669,423.00</u>
		(1) \$206,229.86 plus 53,840.98 paid directly to Gilbertson Associates, Inc. prior to establishment of the fund.	

Section 11 of the agreement also requires that all parties to the agreement share in the cost of the final audit. As such, the final distribution should be reduced by the cost of the audit. The City Auditor's Office recorded 35 hours of direct audit work for the completion of the project. The actual cost of the audit, at a rate of \$65 per hour, would be \$2,275. As a result, the remaining funds available for distribution would be \$80,539.42. The following represents the distribution of funds based on the original percent of contribution.

City of Scottsdale	\$39,689.83	49.28%
Crescent Moon	\$31,289.56	38.85%
Estancia	\$ 9,560.03	11.87%

Construction management of the project was handled by contract with Gilbertson Associates, Inc. The City of Scottsdale acted as fiduciary for the funds and processed the payment requests forwarded by Gilbertson. To ensure that the funds were segregated from other City operations, a separate cost center was created and all expenses were charged against that cost center. While we noted that this process differed from the original terms of the agreement, there was documentation that indicated that the parties agreed to the change. At the close of the audit, Financial Services calculated the amount of interest the fund should have been allocated. This calculation was based on the City's pooled interest rate and resulted in \$17,942.26 added to the account prior to distribution. The average interest rate during the period the funds were held was 5.66 percent.

To complete the audit, we reviewed the cost-sharing agreement, the contract with Gilbertson Associates, Inc., the original bid documents, and the bid award as well as other documentation maintained in City files. We verified that the amount charged against the project for construction agreed with the bid. We did note that there was one change order processed that resulted in the cost of construction exceeding the original bid. This change order, in the amount of \$9,247, was necessary to reconcile the "as bid" amounts to the "as built" amounts and was properly submitted to all the parties for approval prior to payment.

We also verified that the amount charged by Gilbertson Associates, Inc. agreed with the contract. For those items which were to be billed on a time and materials basis, we requested billing reports and material invoices to verify the appropriateness of the amount charged. As a result of the review of the time and material charges, we identified \$4,176.48 in overcharges. Gilbertson Associates, Inc. reimbursed these overcharges

on November 11, 1997, and the funds were credited to the Alma School Relief cost center for inclusion in the calculation of remaining funds.

In our opinion, the schedule of construction costs, shown on Page 1, presents fairly, in all material respects, the expenditures of the project covered under the cost-sharing agreement number 950093 dated July 18, 1995. As such, the remaining funds should be distributed to the contributing parties as required in Section 11 of the agreement.

During the course of the audit, we did identify an opportunity for the City of Scottsdale to improve the control agreement in future cost-sharing agreements of this type. This opportunity is presented in Attachment One of this report.

This report is intended solely for the information and use of the management of the City of Scottsdale, Crescent Moon Partners, L.L.C., and Estancia Development Associates, L.L.C. and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record.

ATTACHMENT I Controls Over The Cost Of Project Management Could Be Improved

Finding The Cost-Sharing Agreement provided for Design, Plans, Specifications, and Project Management to be handled by a third party previously under contract with Crescent Moon Partners, L.L.C. This agreement was entered into by Crescent Moon Partners and Gilbertson Associates, Inc. prior to the development of the cost-sharing agreement. In reviewing the contract, the invoices, and the documentation submitted by the project manager, we found that controls over these types of costs could be improved by requiring the project manager to submit detailed invoices indicating the date and type of service rendered, as well as the parties involved in meetings and the nature of the work conducted. During our audit, we noted that the majority of time billed under the construction administration fee category was for "meetings and coordination." The contract did not specify the detail required to be submitted with the invoice.

Also, the contract did not preclude the project manager from billing for clerical time, nor were the tasks outlined in the project scope sufficiently detailed to allow a determination of the appropriateness of the charge. In addition, the contract did not specify whether the billing rate for individuals should be established based on title or actual work performed. As such, there is the potential for disagreements regarding billing rates for individuals who may provide more than one job function. For example, an engineer who may be appropriately billed at a higher rate for engineering types of services may also be in the field providing the function of a construction observer. The billing rate for the construction observer is normally lower than that of an engineer. As such, there would need to be additional clarification on the appropriate billing rate.

Recommendation We recommend that the City require that appropriate billing procedures be included in future cost-sharing agreements. These billing procedures should require that any third-party agreement that contains a time and material fee category require the submission of detailed, itemized billings. In addition, these agreements should specify that only time actually spent on the task should be charged, and should preclude the inclusion of clerical time or principal time not directly related to a required task. Generally, clerical time as well as principal time is considered an overhead cost which is included in the rate established for the individual assigned to carry out the task.